

**California Department of Water Resources State Water Project  
Comments to CAISO on Make Whole Payment Proposal**

**December 7, 2009**

For the Make Whole Payment stakeholder process, California Independent System Operator (CAISO) released the Issue Paper on October 28, 2008, first Presentation on November 4, 2009, and second Presentation on December 1, 2009. California Department of Water Resources State Water Project (CDWR-SWP) appreciates opportunity to participate in the stakeholder process, and submits the following comments:

**1. Make Whole Payment design should be combined with the Bid Cost Recovery design.**

When CAISO clears market for Bid in Demand, sometimes CAISO needs to increase the Locational Marginal Price (LMP) at the Demand location, which will result in the Demand settlement price being higher than the Demand bid in price and CAISO over charging the Bid in Demand. To make the Bid in Demand whole, CAISO needs to refund the over-charged money to the Bid in Demand ---- Make Whole Payment.

Under the Make Whole Payment, CAISO refunds the over-charges to Bid in Demand to ensure that Bid in Demand are charged, to the maximum, its bid in price. It is very similar to the Bid Cost Recovery design under which CAISO pays the Bid in Supply the under paid amount to ensure that the Bid in Supply is paid at least its bid in price.

When developing the Bid Cost Recovery design, CAISO didn't consider the Make Whole Payment issue. Since both Bid in Demand and Bid in Supply are CAISO resources in addressing reliability problems, CDWR-SWP suggests that CAISO use this opportunity to revisit the Bid Cost Recovery design and to consider combine the Make Whole Payment issue with the Bid Cost Recovery design. When considering the payment methodologies, CAISO should treat the Bid in Demand the same way as the Bid in Supply; also, when considering charging methodologies, CAISO should treat Supply the same way as Demand.

CAISO, as a transmission provider, should see the Bid in Supply as resources that help CAISO in providing the reliability services, and see Supply and Demand as customers that receive reliability services or benefit from the reliability services. In this way, it will be easier for CAISO to develop payment and cost allocation methodologies for Bid Cost Recovery, Make Whole Payment, and other reliability related settlement. The above approach will be reasonable and fair to both Supply and Demand.

**2. Make Whole Payment should be settled on hourly basis.**

When settling the Make Whole Payment, CAISO needs to decide whether the Make Whole Payment should be settled on daily or hourly basis. Since the CAISO Day Ahead Market and Hour Ahead Scheduling Process are updated every hour, the Make Whole Payment, including refund to Bid in Demand and revenue requirement allocation to, for example Supply, should be settled on hourly basis. For the Real Time Market, although the transactions are settled on Settlement Interval (10 minutes) basis, the Make Whole Payment should also be settled on Settlement Interval basis; however, for convenience purpose, the Make Whole Payment in the Real Time Market can also be settled on hourly basis.

Although the current Bid Cost Recovery payment are on daily basis, the daily approach doesn't accurately reflect the cost causation principle, doesn't reflect the need for Bid in Supply during peak hours, and doesn't encourage demand to shift away from peak hours. As a result, CDWR-SWP suggests the Make Whole Payment settled on hourly basis.

**3. Make Whole Payment revenue requirements should be allocated to Supply.**

To the extent, the CAISO is not willing to combine the Make Whole Payment and the Bid Cost Recover together and only willing to address the Make Whole Payment issue in this stakeholder process. SWP believes the Make Whole Payment revenue requirement should be allocated to Supply only.

Under the Bid Cost Recovery design, the Integrated Forward Market (IFM), Residual Unit Commitment (RUC), and Real Time Market (RTM) Bid Cost Recovery costs are allocated to Load Uplift Obligations, net Negative CAISO Demand Deviations, and Measured Demand. In general, the Bid Cost Recovery cost is allocated to the Demand side. To maintain the policy balance, the Make Whole Payment revenue requirements should be allocated to the Supply side. The above approach also makes economic and engineering sense because while the Bid in Supply is to solve Demand side reliability problems, the Bid in Demand is to solve Supply side reliability problems.